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Developments in the Stock Market

STRENGTH PREDOMINATED in the stock market during the past week, although there were some stocks which had sharp declines and the list as a whole had periods of reaction. The lowering of the Bank of England rate to 4½% and the Federal Reserve Bank of New York rediscount rate to 4% had been expected for some time and caused the recent buying power. We consider that the lowering of the bank rates has been largely discounted in the stock market temporarily, and believe that a general profit-taking reaction might be near at hand, but we also feel convinced that the long pull outlook is still very bullish. It has been the history of Reserve Bank rediscount rate changes that the first effect is in the opposite direction than would be expected but the later effect confirms the original position. Thus, on several previous rate reductions in the past, a sharp reaction followed soon after, then later a sustained gain. The reverse has also been true. In early August, 1929, the New York rate was raised to 6%. This was soon followed by a sharp advance in stock prices, lasting several weeks, then a violent decline followed.

Advance Has Been Large

The upward movement has been so slow and so many stocks did not join in it to any appreciable extent, that few people realize how big a gain there has been, as measured by the averages. At the high point of the past week, the Dow-Jones industrial averages were up nearly 30 points from the January lows, over 40 points from the December lows and nearly 75 points from the November lows. On the other hand, the rail averages were up only about 10 points from the January lows, 11 points from the December lows and 26 points from the November lows. It would seem, therefore, as if the industrials are entitled to some reaction but that the rails ought to move up soon.

Too Much Buying for Quick Profits

Too much of the recent buying has been with a view of taking a quick profit and too little of it for the sake of holding for investment. The lowering of the rediscount rate indicates a long period of low money rates, and, therefore, buying of bonds ought to gain, while good preferred and common stocks, with stabilized earnings, selling to yield 5% or more, ought to move higher before very long. There have been many trading groups operating in speculative issues, and it is possible that there will be heavy profit taking soon in stocks of this class, and sharp recessions. High grade investments, on the other hand, are not likely to go off much and should be in demand on small declines and should be among the first to start rising later. The increase of $57,000,000 in brokers' loans in the past week is an indication of increasing public trading, but most of it was in the more speculative stocks.

Good Stocks Can Get Out of Line

Because a company is a leading one in its industry, is well managed and has had a wonderful record, there is no reason why the stock should go up forever. We consider that General Electric is one of the best companies in any field, but when a price of near 80 is reached for the new stock, we would advise investors to switch from it into some good issue yielding 5% or more. Thus, General Electric at 80 would yield only 2%, or half of the return of savings banks or Liberty bonds, on the present dividend and this price is more than 30 times the indicated earnings per share for this year. In 1929, the old stock at its high was selling to yield less than 1% and was over 40 times earnings per share, but when the market break came, it declined from 403 to 168⅛. There are other stocks selling to yield under 3% and at prices 20 to 30 times earnings, which seem to be overdiscounting future prospects.

Consider Yields and Earnings

Yields and earnings, in the long run, should be the things which make market values during a prolonged period of low money rates. There are many of the best dividend rails which are earning dividends with a wide margin to spare, selling to yield over 5%. These include Baltimore & Ohio, Rock Island, St. Louis-San Francisco, Northern Pacific, New Haven, Chicago & North Western and several others. While the yield is somewhat under 5% on New York Central and Pennsylvania, both stocks are in line for higher dividends before long, and both stocks have prospects for much higher levels for a long pull. It is issues like these that should be picked up on moderate recessions and held for long pull profits. Many industrials yielding over 5% have strong prospects for being in a rising trend later when many more speculative issues may be declining. Among such issues are Texas Gulf Sulphur, Reynolds Tobacco, National Dairy Products, Standard Brands, Gold Dust, Texas Corporation, Shell Union Oil, Sinclair, General American Tank and various others.

C. H. P.

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R. J. Reynolds Tobacco Company

The tobacco manufacturing business, and particularly the cigarette field, has been showing a steady increase in earning power for many years. Some companies suffered a temporary setback in 1929 as a result of several price changes for cigarettes, but the R. J. Reynolds Tobacco Company's earnings for 1929 established a new high record, and there is every indication of still better results this year.

This Company is one of the most conservatively managed organizations in this industry and is said to be the largest earner in this field. Over a period of many years the earning power has steadily increased and this has been reflected in a number of dividend increases, stock dividends and splitups, with indications that this policy of liberality by directors will continue in the future.

The common stock of this Company is rather closely held, but the Class "B" common has an active market, and is the best stock to purchase for ordinary investment or market profit purposes. We consider it an excellent investment and believe that in the course of time it will sell materially higher.

History and Properties

R. J. Reynolds Tobacco Company was incorporated in New Jersey in 1899. It was under the control of the American Tobacco Company until the dissolution of 1911, when the Reynolds stock was segregated. The business was originally started in 1875.

This Company is the manufacturer of "Camel" cigarettes, one of the leading brands in the lower-priced field. It also makes many brands of plug, twist, and smoking tobacco, the best known of which is "Prince Albert."

The main manufacturing plant is located at Winston-Salem, North Carolina, where there are a large number of buildings fully equipped with necessary machinery for the making of cigarettes and smoking and chewing tobacco. The Company has other plants in various localities, also a large number of storage plants and warehouses.

Capitalization and Dividends

This Company has no funded debt. There was formerly an issue of preferred stock, but this was called for redemption in 1926.

There are two classes of common stock, of which the common stock itself is $10,000,000 authorized and outstanding, par value $10. The common Class "B" has $130,000,000 authorized and $90,000,000 outstanding, par value $10. The two stocks are on the same basis as to all dividends and rights, excepting that the common has voting power and the "B" has not. Practically all of the common stock is owned by officers and employees of the Company.

The original capitalization of the Company consisted of $2,100,000 common stock of $100 par value. Subscription rights, stock dividends and capital splitups have accounted for the increase to the present outstanding $100,000,000 common and "B" combined. Among the stock dividends and splitups was a four for one split in 1920 when the par value was reduced from $100 to $25, a 200% stock dividend in 1920, a 33 1/3% stock dividend in 1922, a 25% stock dividend in 1927, and a 2½ for 1 split-up at the end of 1928, when the par value was reduced from $25 to $10. Through these various changes, the holder of one original share of Class "B" stock would now have 50 shares.

Cash dividends have been paid in every year for a long period, the smallest dividend in any year on the common and "B" stocks having been 10%. In 1927 and 1928, the dividend rate was 26% for each year, and in 1929, the dividend rate on the new stock was 24% (or $2.40 per share). This dividend has been further increased with a 75c per share quarterly dividend paid on January 2, 1930. This puts both stocks on a $3 annual dividend basis.

Earnings

This Company does not make public its full income account, merely giving its net income available for dividends after all previous deductions.

The growth in this net income is shown in the following table:

1913	$ 2,862,567
1914	2,916,564
1915	4,729,988
1916	8,043,678
1917	10,340,345
1918	7,042,763
1919	11,272,753
1920	10,691,294
1921	16,258,323
1922	20,479,234
1923	23,039,876
1924	23,777,717
1925	25,221,579
1926	26,249,403
1927	29,080,665
1928	30,172,563
1929	32,210,521

This progressive growth in earnings, with one or two small recessions during the war period and post-war deflation, is a record which very few companies can show. In every year, the Company had a surplus after cash dividends, its total surplus for this 17-year period amounting to approximately $115,000,000. Much of this was capitalized in stock dividends, or in retiring the preferred stock, but at the end of 1929, the Company still had over $50,000,000 profit and loss surplus.

In 1929, there was a surplus after dividends of $6,210,521. The earnings in 1929 were equal to $3.22 per share on the present outstanding common and "B" stocks, against $3.02 per share in 1928, on the same amount of stock.

Balance Sheet

The balance sheet as of December 31, 1929, follows:

ASSETS		
Lands, buildings, etc., less depreciation		$ 17,453,280
Brands, good-will, etc.		1
Investments		19,601,595
Bills and notes receivable		329,919
Other accounts receivable		4,687,527
Prepayments		581,135
CURRENT ASSETS:		
Cash	$18,139,801	
Accounts receivable (net)	11,426,731	
Inventories	90,965,964	120,532,496
Total Assets		$163,186,353
LIABILITIES		
Common Stock		$ 10,000,000
Common Stock, Class "B"		90,000,000
Reserve for contingencies		1,829,523
Profit and loss surplus		51,578,859
CURRENT LIABILITIES:		
Accounts payable	$ 3,783,322	
Accruals	5,993,649	9,776,971
Total Liabilities		$163,186,353

At the end of 1929, the current assets were more than $110,000,000 in excess of current liabilities, with a ratio of over 12 to 1.

It will be noted that trade marks, brands, good-will, and other intangible items were carried at only $1 in the balance sheet. Nearly all of the other large tobacco companies carry these items at high figures, with American Tobacco setting a valuation of about $54,000,000, Liggett & Myers about $40,000,000 and P. Lorillard Company about $21,000,000 on their intangible assets.

In the item of investments, which increased over $18,000,000 as compared with the balance sheet of December 31, 1928, it is understood that the Company is carrying over 400,000 shares of its Class "B" stock, purchased during the market break in October and November. Another change in the balance sheet as compared with the previous year, is the elimination of $12,000,000 in Government bonds.

An indication of the growth of this Company is to be found in a comparison with the balance sheet of December 31, 1911, when the Company had a total of $13,713,172 for all assets, or less than one-twelfth of the present total.

Position of Class "B" Common Stock

The common stock of this Company is too inactive for ordinary trading purposes or investment. Much of it is held by officers and employees of the Company and such holders receive special rights to participate in profits which an ordinary holder of the common stock would not receive, and that is why the common stock sells for materially higher prices than the common "B".

The Class "B" common stock is in an excellent investment position, as there is every indication that the steady gain in earnings shown in the past will continue. Sales of "Camel" cigarettes and "Prince Albert" smoking tobacco have shown progressive gains for many years, and so have some of the other brands. There is a rising tendency at present in wholesale cigarette prices, which should add still more to the earnings power of the Company. It is considered probable that Reynolds will be able to earn close to $4 a share this year.

The financial position of the Company is very strong, not only in the big margin of current assets over current liabilities, but also because it has very valuable good-will, brands and trade mark assets, which are carried at only $1 in the balance sheet.

The record high price on the common "B" stock of $25 par value was $165½ in 1928, and the record low was $43⅞ in 1922. On the $10 par value stock, the range for the "B" was $66 high, $39 low in 1929. At present prices, this stock is selling to yield about 5½%. In view of the outlook for low money rates, stocks of this description ought to move higher, as they should attract increasing investment demand.

C. H. P.

PREVIOUS REVIEWS

Previous Market Reviews have included analyses on the following, copies of which are available for distribution:

American Car & Foundry Co.
American Smelting & Refining Co.
Barnsdall Corporation
Bethlehem Steel Corporation
Chesapeake Corporation
Chicago & North Western Railway
Chrysler Corporation
Colorado Fuel & Iron Company
Continental Oil Company (of Del.)
General American Tank Car Corp.
B. F. Goodrich Co.
Kansas City Southern Railway
Julius Kayser & Co.
Kelvinator Corp.
The May Department Stores
Missouri-Kansas-Texas Railroad
New York Central Railroad
N. Y., N. H. & H. R. R. Co.
N. Y., O. & W. Railway
Northern Pacific Railway
Pillsbury Flour Mills, Inc.
Pullman, Inc.
Shell Union Oil Corporation
Sinclair Consolidated Oil Corp.
Southern Railway Company
Standard Oil of California
Studebaker Corporation
Texas Corporation
United Fruit Co.
U. S. Realty & Improvement Co.
United States Steel Corporation
Western Union Telegraph Co.
L. A. Young Spring & Wire Corp.

The Bond Market

Now that the first month is past, we have a general idea of what to expect of the bond market for 1930. Subsequent to the decline in the stock market prior to the end of the past year, the opinion was here and there expressed that we might expect a bond market boom after January. As a matter of fact, the bond market showed no extraordinary strength, but continued to demonstrate the gradual improvement which was begun at the end of 1929.

At first glance it might appear somewhat puzzling that the enormous liquidation of credit and consequently lower money rates, did not stimulate the bond market as expected. There are a variety of reasons for this apparent anomaly. Interest in the stock market has not completely subsided, as indicated by the moderate improvement shown. Everyone heretofore interested in the stock market, has not completely forsaken the latter for the purpose of buying fixed-income bearing securities.

In addition, the really large buyers of bonds, banks and insurance companies, have not entered the market to as great an extent as we were originally led to believe. The reason for this, of course, is obvious—the insurance companies as well as banks being required to make loans to individuals as a result of the decline in the stock market. The liquidation of these loans, therefore, should gradually release funds for the purchase of bonds.

One statistical service estimates that about $650,000,000 in bonds was offered during the month of January. When it is considered that these issues, which exceed in amount any single month since 1928, were offered in a bond market still in the recovery stage, it is really rather surprising that bond prices showed the strength they have. Offerings in future months will undoubtedly be more moderate, the bankers taking great care in gauging the absorption power of the market before attempting any distribution.

The bond market for the balance of the year may be expected to demonstrate gradual improvement, encouraged by the continuance of signs of easier credit. The general lowering of central banks' rediscount rates will be a barometer in this connection. At the present writing, influences which may retard the bond market are a resumption of interest in the stock market and volume of new bond financing.

Market Comment

Greater activity and higher prices generally characterized bond trading on the New York Stock Exchange during the past week. Because of the better tone of

the stock market, convertible and warrant bonds were most prominent, but strictly investment issues were also better.

In the stock-privilege issues, interest centered in the AMERICAN TELEPHONE & TELEGRAPH 4½s, both issues of ALLEGHANY CORPORATION 5s, TEXAS CORPORATION 5s, ATCHISON 4½s and the REMINGTON RAND 5½s. In this class among foreign bonds, the KREUGER & TOLL 5s were active.

Recommendations

It is often possible to obtain bonds selling at a premium on a far more attractive basis than other comparable issues which sell at or below par.

We suggest the following:

Moody Rating	Issue	Recent Price	Current Income	Yield to Maturity
AA	Great Northern Railway "A" 7s, 1936	111	6.25	4.90
AAA	Grand Trunk Railway of Canada 6s, 1936	105	5.71	5.09

On the average, "AA" railroad bonds sell to yield approximately 4.80 to maturity, and "AAA" railroad issues return only about 4.57 to maturity.

Prospective Financing

Subject to official announcement, the following financing is expected in the near future:

Duquesne Light 4½s
Cleveland Union Terminal 4½s
Consumers Power 4½s
Cleveland Electric Illuminating 5s
Chicago Union Station 4½s
Philadelphia Company 5s
Atchison, Topeka & Santa Fe 4s
Memphis Power & Light 5s
Republic of Cuba 5½s
Consolidated Gas, Electric Light & Power of Baltimore
Appalachian Power
Community Power & Light
Arkansas Power & Light
Laclede Gas Light
Virginian Railway
Pittsburgh & West Virginia
Atlantic Coast Line
Delaware, Lackawanna & Western

The foregoing list will be revised and added to each week.

J. R. H.

The Bank Stock Market

Bank stocks were very active this past week, moving to higher levels than at any time since the October-November break. Previous strength, interrupted by slight irregularity last week, was again resumed in redoubled fashion. Investment buying appears to be the basis for the present move, with purchasers anxious to take advantage of investment levels for bank stocks before their opportunity is missed.

Guaranty Trust Company held the spotlight, moving up from $700 to $747 bid. Brooklyn Trust jumped sharply, as did New York Trust. National City Bank continued to move, reaching 236 bid. Manhattan Company and Equitable Trust again moved forward, both giving evidence of true investment buying. Commercial National and Central Hanover were strong with Bank of U. S. also moving forward.

Our analyses of Manhattan Company and Equitable Trust compare these two stocks with other leading New York City bank stocks with particular reference to earnings, book value and future prospects. We should be pleased to send these on request.

Insurance Stocks

We have completed a concise analysis of the Home Insurance Company stock which we suggested as attractive last week.

R. L.

CALLED BONDS

Information regarding securities called for payment, including numbers, is regularly sent to readers of the "Weekly Financial Review" who list their holdings with us.

Address our Investment Department in this connection.

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Our Statistical Department will be glad to check over any investment holdings, if the list is mailed to us. We will carry Securities on a Conservative Margin.